Tighter monetary policy and regulation point to slowdown in property market

The economic outlook for the eurozone has changed dramatically in just a matter of weeks. Stagflationary risks have risen sharply, prompting the European Central Bank to retain maximum flexibility. Still, monetary policy is expected to tighten, resulting in higher borrowing costs, and possibly cooling demand for residential property

A renovated row of houses in Berlin

The eurozone economy reached its pre-Covid crisis level at the end of 2021 and was set to expand further in 2022 on the back of strong investment programmes, the easing of Covid restrictions, a gradual decline in inflation and improving supply chains. However, the economic outlook for the eurozone has changed sharply with the outbreak of the war in Ukraine.

Stagflationary risks ahead

High energy and commodity prices will weigh on both household purchasing power and corporate production costs, keeping inflation elevated for longer. Longer-lasting disruptions, a new round of delays and protracted supply shortages will hinder production, while the high level of uncertainty could lead to investment and purchasing decisions being postponed. This puts the eurozone economy at risk of stagflation, a toxic mix of slow economic growth ("stagnation") coupled with rising prices ("inflation"). Although the statistical overhang of last year's growth alone should result in a growth rate of some 2% for the eurozone, it cannot be ruled out that the economy will contract in at least one quarter this year.

The prospect of ECB monetary tightening has led to rising longer-term interest rates

Uncertainty about the eurozone's economic outlook has also caused the European Central Bank to retain maximum flexibility and optionality in normalising its monetary policy. Nevertheless, net asset purchases are expected to end in the third quarter and, in our view, a first rate hike before the end of the year is still possible. Consequently, longer-term interest rates have already increased and should move up further.

Key numbers

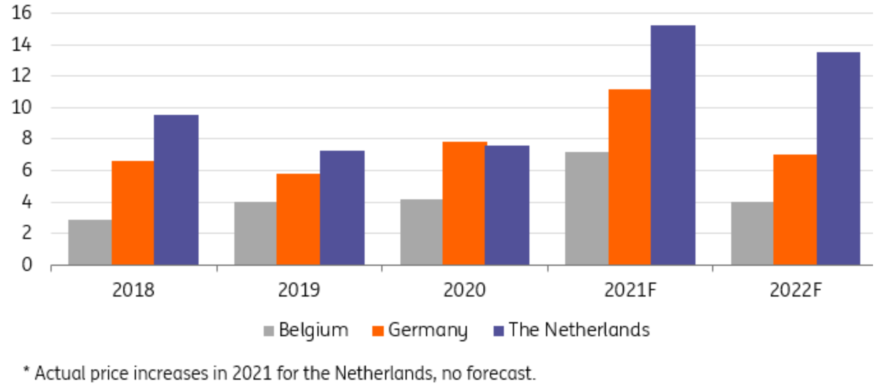
	Germany	Netherlands	Belgium
House price growth over the period 3Q2016-3Q2021	Total: 44.5%	Total: 59.0%	Total: 24.1%
	Existing dwellings: 46.5%	Existing dwellings: 62.7%	Existing dwellings: 24.4%
	New dwellings: 33.6%	New dwellings: 58.5%	New dwellings: 23.3%
Income growth 2015-2020	15%	19%	17%
Total number of households as of 01/01/2021	40.5 million	8,043,443	5,024,851
Expected growth of number of households in the next five years	1%	5%	3.2%
% of owner-occupied homes	50.4%	57.0%	71.1%
% of tenants at market price	43.3%	10.0%	19.5%
% of tenants at reduced price or free	6.3%	33.0%	9.4%
Evolution of strictness of regulation	More strict	More strict	Slightly more strict

- *House price growth is measured using the house price index from Eurostat. Note that this index makes an adjustment for quality changes over time. To measure income, we use gross disposable income (source: Eurostat). Number of households and expected growth of number of households for Belgium, Germany and the Netherlands are from het Federaal Planbureau, the German Federal Statistical Office and Centraal Bureau voor de Statistiek, respectively. Data on market structure in Belgium and Germany is from Eurostat and from Centraal Bureau voor de Statistiek and Capital Value for The Netherlands.*

What do the economic developments mean for the real estate market?

Tighter monetary policy is accompanied by higher borrowing costs, adding to lower household purchasing power, already constrained by inflation. In addition, housing market regulation is getting tighter, arguing in favour of some cooling of real estate markets. Nevertheless, housing demand should still exceed supply in many regions. We examine developments in the real estate markets in the Netherlands, Belgium and Germany.

House price growth in the eurozone



Source: Eurostat, ING forecasts

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